

Differences Noted in the Rates Billed from the Qwest BOC to Section 272 Affiliates for Non-Tariffed Services Made Available to Third Parties

Line	Month	Service	Description	Total Units Billed	Rate Per Unit Difference - Underbilled	Total Amount Underbilled	Management Explanation
1	November 2004	Information Technologies Services	Help Desk	1,699.00	\$ 12.71	\$ 21,594.29	A true-up invoice was issued in February 2006 and a copy of the billing request was provided to E&Y on 2/17/06. A true up was required to correct the billing for the incorrect rate due to a clerical error.
2	June 2004	Space and Furniture	Project Mgmt-Cost Share	10.00	\$ 4.22	\$ 42.20	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.
3	June 2004	Space and Furniture	Project Mgmt-Cost Share	11.00	\$ 4.22	\$ 46.42	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.
4	June 2004	Space and Furniture	Project Mgmt-Cost Share	8.00	\$ 11.15	\$ 89.20	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.
5	August 2004	Space and Furniture	Project Mgmt-Cost Share	4.00	\$ 23.15	\$ 92.60	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.
6	August 2004	Space and Furniture	Project Mgmt-Cost Share	10.00	\$ 23.15	\$ 231.50	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.
7	August 2004	Space and Furniture	Project Mgmt-Cost Share	10.00	\$ 35.29	\$ 352.90	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.
8	August 2004	Space and Furniture	Project Mgmt-Cost Share	3.00	\$ 23.13	\$ 69.39	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.
9	June 2004	Space and Furniture	Project Mgmt-Cost Share	16.00	\$ 4.21	\$ 67.42	The rate that is originally applied is based on system generated rates and factors. This produces some timing differences between posted rates and billed rates, which we adjust for in a supplemental invoice in the same month as the original billing.

Documentation Provided by the Qwest BOC Regarding Billing Systems' Internal Controls Related to Section 272 and Non-Discriminatory Billing

Several billing systems are used to bill and record transactions between the Qwest BOC and each section 272 affiliate. The billing systems include Customer Record Information System (CRIS) (Western, Central and Eastern), Integrated Access Billing System (IABS), Billing Accounts Receivable Tracking (BART) and Billing and Collecting (BC&I). Each billing system has controls to ensure that all billing records and files are processed completely and accurately.

The controls ensure updates to customer accounts for new products and services are timely and billing rates are accurate. The following controls are in place to assure accurate rating of services for affiliate and non-affiliate billing. Processing and rating within each billing systems is uniformly applied to both affiliate and non-affiliate billing transactions.

- CRIS – Service order items are rated by CRIS based upon multiple factors pertaining to both the account as a whole and the specific products being ordered. Both recurring and one-time charges are applied. Either the rates are directly lifted and used from a table, or a combination of program logic and table data is used to calculate the appropriate rate. Change accuracy is controlled via a second person's independent validation that the change as entered or keyed is correct. This second person validation is documented.
- IABS – Each bill is configured to appropriately extract customer information from the customer's account which reflects orders that have been processed, both from usage processing and from cash processing, to ensure that charges are complete and accurate. Accounts with errors, questionable amounts, or out-of-balance situations are put into a "hold bill" status for resolution before the bill is released. Based on a disconnect order, IABS is configured to prepare customer final bills based on effective bill termination date.
- BART - The majority of billing information is provided to the BART group, including the pre-rated amount. For certain types of billing, BART will apply corporate overhead loadings, investment loadings, or rate direct labor and engineering, etc. These rates have been calculated by Regulatory Accounting and sent to the BART Staff for input to internal BART Tables. Only the BART Staff has authority to update the table. Invoices and Detailed reports are produced at bill pull.
- Billing and Collection - Bill calculation and preparation is accomplished by a combination of activities:
 - 1) Mechanized counts for certain types of billing transactions including, but not limited to, end user bills, market messages, and end user adjustments are

tracked and then reported by each of the three CRIS billing systems to the western region BC&I sub-system on a work-day basis.

2) Manual input entered by the billing service delivery coordinators (SDCs). Examples include, when appropriate: IT developmental charges, LEC Memo-generated end user adjustments, ASK transactions, Regional Invoice Billing (RIB) text file updates and adjustments to the invoice itself.

3) The majority of transactions are rated mechanically by the BC&I system (volumes X a pre-determined rate specified in the contract). Other affiliate and non-affiliate transactions are manually rated based on direction supplied to the SDC by product management. Rates are uniformly applied for affiliate and non-affiliate billing and in accordance with regulatory guidelines.

All B&C Invoices are validated for accuracy and “reasonableness” by the SDC prior to their release. The reasonableness check compares the current month’s charges against last month’s bill.

Qwest BOC’s internal controls and procedures designed to ensure non-discriminatory billing.

- All billing platforms (except IABS) utilize run-to-run controls to ensure there are no duplicate or missing files. Files are checked to ensure they follow sequentially from the previous batch files received the night before. All platforms utilize programmatic controls consisting of header/trailer checks to ensure that no records within files are lost or created between jobs. An event manager performs similar controls for IABS.
- Mechanized Job Scheduler (Control M) is utilized to ensure proper processing of production jobs in the system. Automated monitoring is used to identify exceptions to normal processing. Alarms and email notifications are used to alert the responsible parties for required follow-up action.
- Resource Access Control Facility “RACF” is a system access control, which provides real-time monitoring and access approval, or denial, for individual users and applications attempting to access billing systems and their data stores. Unauthorized access attempts are logged and reviewed by the IT RACF staff for resolution. Authorized documentation is maintained and tested by the RACF staff.
- A formal Change Management process is utilized for any enhancements.
- Product Development team reviews all new products, or changes to existing product structure to ensure billing system applies rates, discounts etc. accurately and nondiscriminately. Changes are not fully implemented until requesting Product Manager approves results of invoice testing.

- A Disaster Recovery Plan is maintained for each billing system that stipulates data is backed-up during each batch run and stored off-site.

Billing Systems Summary

<i>Billing Systems</i>	<i>Description of products and services provided.</i>
<i>CRIS (W,C,E)</i>	<i>Customer Record Information System "CRIS" is the primary billing system for QC retail products and services. CRIS also provides billing services for wholesale (i.e. private lines), Inter Exchange Carriers (AT&T, Sprint, etc), Affiliates of Qwest Corporation (QCC, QLDC, Wireless, etc), and Independent Companies within the same states as QC. The billing done on behalf of other entities is provided through Billing and Collection Agreements.</i>
<i>LABS</i>	<i>Integrated Access Billing System (LABS) primarily bills for QC services related to other telecommunication carriers' use of the Qwest network, both for usage (access) and/or network equipment. It also bills for network equipment provided to large business customers, i. e. frame relay.</i>
<i>BART</i>	<i>Billing Accounts Receivable Tracking "BART" is a regional system for QC and QCC primarily for billing non-telephone services for non-affiliates. BART also bills for affiliated billing (QC, QCC, Wireless, Broadband, IT) and on behalf of affiliates.</i>
<i>BC&I</i>	<i>The Billing & Collection Invoice (B&CI) system performs billing for QC for IX Carriers, QCC, QLDC via shared billing arrangements.</i>

All detailed billing for affiliate and non-affiliate billing records are sent to RJS to classify and record. These classified records are sent to the General Ledger and to various downstream management reporting systems. Also see responses to 1a and 1b for controls present for both 272 affiliate and non-affiliated billing.

Billing controls listed below are completed for all affiliate (including section 272) and non-affiliate billing.

Billing -

- Detailed billing records are kept for QC and each section 272 affiliate through billing subsidiary records. The general ledger accounts associated with billing are reconciled to the billing subsidiary records on a monthly basis.\
- All detailed billing records (including billing transactions, cash transactions, and adjustments) are sent daily to a revenue journal system "RJS" that classifies all

billing events. This detailed information is then sent to the General Ledger and to various downstream management reporting systems.

- Files containing billing transactions, payments and adjustments are received into the Revenue Journal System (RJS) on a daily basis. Transaction indicators (including entity) on each record allow RJS to determine how to account for each event. The production flow is fully automated, with various manual and mechanized controls as follows.
- Sequencing numbers – each file provides current and prior sequence number in the header of the file. This information is tracked on control tables to ensure files are not duplicate. Out of sequence headers will cause the job to fail, halting the process. The job remains in a failed status until it has been investigated and resolved.
- Balancing – Trailer amounts are included with each file. The file is balanced to the amount provided by the sending system to ensure all transactions are received. An out of balance file will cause the job to fail, halting the process until it has been investigated and resolved.
- File Monitoring – Daily production is monitored to ensure receipt of files is on schedule. If files are not received according to the schedule, contact is made with the sending system. All job failures are tracked through to successful completion.
- An audit trail can be followed through each RJS job by using the input and output files in RJS.

Payments –

Cash payment processes, procedures and controls are completed for all affiliate (including section 272) and non-affiliate cash payments.

- CRIS Payment activity (including payments, adjustments and returned items) is posted, nightly, to the G/L. Daily and monthly balance and control activities are completed to ensure the integrity of the process. Accounts receivable and cash detail is reconciled to the billing system, general ledger and bank statement on a monthly basis. Customer remittances and any approved adjustments will be reflected on the customer's next bill.
- IABS - Cash files are received daily from the IABS Remittance Processing Site. An event manager within IABS records and acts as a control for cash transactions. Customer payments and any approved adjustments will be reflected on the customer's next bill. A billing entry is created reflecting the payment, stored on the appropriate IABS table, and will be included in the next daily IABS feed to RJS for updating the General Ledger.

- BART - Cash files are received daily from the Remittance Processing Site (RPS). RPS files are controlled using Control M . The system matches the information provided on the file and posts the payments to the correct Billing Authority. Checks are also received in the BART Unit for Advance Payments on Special Construction Jobs. They are input to the BART system, payment documents are prepared and delivered to the RPS for cash processing. System edits assure accounts are set up correctly.
- BC&I - A Service Delivery Center receives daily control documents for all BC&I payments from a Remittance Processing Center. Customer payments are made either by wire transfer or by check and are applied to the customer accounts. All payments applied to customer accounts must equal control documents.

**Differences Noted in the Rates Included in the Rate Tables
Compared to the Rates in Applicable Tariffs or Contracts**

Attachment A-6
Objective VII-4a

Item #	USOC	State	Rate Group	NPA/ CO	Rate Per Rate Table	Rate Per Tariff or Contract	Note
1	32104	Arizona			\$ 0.75		D
2	32104	Colorado			\$ 1.25		B
3	32104	Colorado			\$ 1.25		B
4	32104	Idaho			\$ 1.25		B
5	32104	Idaho			\$ 1.25		B
6	32104	Idaho - north			\$ -		D
7	32104	Idaho - north			\$ 1.25		D
8	32104	Iowa			\$ 1.25		B
9	32104	Iowa			\$ 1.25		B
10	32104	Minnesota			\$ 0.75		D
11	32104	Montana			\$ 0.95		B
12	32104	Montana			\$ 0.35		D
13	32104	Montana			\$ 0.85		D
14	32104	Nebraska			\$ 1.25		B
15	32104	Nebraska			\$ 1.25		B
16	32104	North Dakota			\$ 1.25		B
17	32104	North Dakota			\$ 0.75		D
18	32104	North Dakota			\$ 1.25		B
19	32104	Oregon			\$ 0.75		D
20	32104	South Dakota			\$ 1.25		B
21	32104	South Dakota			\$ 0.95		D
22	32104	South Dakota			\$ 0.95		D
23	32104	Utah			\$ 1.25		B
24	32104	Utah			\$ 1.25		B
25	32104	Wyoming			\$ 1.25		B
26	32104	Wyoming			\$ 1.25		B
27	1FB	Iowa	3		\$ 30.99	\$ 34.46	A
28	1FB	Minnesota	1	F479	\$ 38.34		D
29	1FB	Minnesota	1	F585	\$ 35.50		D
30	1FB	Minnesota	1	F630	\$ 36.55		D
31	1FB	Minnesota	1	F789	\$ 35.50		D
32	1FB	Minnesota	1	F823	\$ 41.82		D
33	1FB	Minnesota	1	R314	\$ 39.85		D
34	1FB	Minnesota	1	R325	\$ 36.83		D
35	1FB	Minnesota	1	R329	\$ 35.41		D
36	1FB	Minnesota	1	R468	\$ 38.72		D
37	1FB	Minnesota	1	R862	\$ 35.33		D

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Item #	USOC	State	Rate Group	NPA/ CO	Rate Per Rate Table	Rate Per Tariff or Contract	Note
38	1FB	Minnesota	1	R966	\$ 36.01		D
39	1FB	Minnesota	1	1328	\$ 36.19		D
40	1FB	Minnesota	1	1379	\$ 42.38		D
41	1FB	Minnesota	1	1386	\$ 38.49		D
42	1FB	Minnesota	1	1388	\$ 35.97		D
43	1FB	Minnesota	1	1463	\$ 36.94		D
44	1FB	Minnesota	1	1475	\$ 37.38		D
45	1FB	Minnesota	1	1634	\$ 36.09		D
46	1FB	Minnesota	1	1744	\$ 38.05		D
47	1FB	Minnesota	1	1757	\$ 39.01		D
48	1FB	Minnesota	1	3228	\$ 35.80		D
49	1FB	Minnesota	1	3346	\$ 34.80		D
50	1FB	Minnesota	1	3425	\$ 35.03		D
51	1FB	Minnesota	1	3445	\$ 36.49		D
52	1FB	Minnesota	1	3468	\$ 40.25		D
53	1FB	Minnesota	1	3478	\$ 40.06		D
54	1FB	Minnesota	1	3628	\$ 39.23		D
55	1FB	Minnesota	1	3752	\$ 35.51		D
56	1FB	Minnesota	1	3765	\$ 36.09		D
57	1FB	Minnesota	1	3767	\$ 36.07		D
58	1FB	Minnesota	1	3793	\$ 36.08		D
59	1FB	Minnesota	1	3842	\$ 39.26		D
60	1FB	Minnesota	1	3872	\$ 37.61		D
61	1FB	Minnesota	1	3926	\$ 41.95		D
62	1FB	Minnesota	1	3942	\$ 39.46		D
63	1FB	Minnesota	1	3945	\$ 39.46		D
64	1FB	Minnesota	9	1636	\$ 37.04		D
65	1FB	Nebraska	J	W338	\$ 28.55		D
66	1FB	Nebraska	J	W275	\$ 28.55		D
67	1FB	Nebraska	J	V250	\$ 29.35		D
68	1FB	Nebraska	J	W338	\$ 28.55		D
69	1FB	Nebraska	J	W275	\$ 28.55		D
70	1FB	Nebraska	J	V250	\$ 29.35		D
71	1FB	Nebraska	J	W275	\$ 28.55		D
72	1FB	Nebraska	J	W338	\$ 28.55		D
73	1FB	Nebraska	J	V250	\$ 29.35		D
74	1FB	Nebraska	J	W275	\$ 28.55		D

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Item #	USOC	State	Rate Group	NPA/ CO	Rate Per Rate Table	Rate Per Tariff or Contract	Note
75	1FB	Nebraska	J	W338	\$ 28.55		D
76	1FB	Nebraska	J	V250	\$ 29.35		D
77	1FB	North Dakota	1	F324	\$ 27.29		D
78	1FB	North Dakota	1	F572	\$ 28.17		D
79	1FB	North Dakota	1	F597	\$ 25.66		D
80	1FB	North Dakota	1	F678	\$ 33.13		D
81	1FB	North Dakota	1	F774	\$ 28.17		D
82	1FB	North Dakota	1		\$ 26.05	\$ 25.66	A
83	1FB	North Dakota	2	F663	\$ 29.01		D
84	1FB	North Dakota	2		\$ 30.16	\$ 28.35	A
85	1FB	North Dakota	3	F428	\$ 38.45		D
86	1FB	North Dakota	3		\$ 32.75	\$ 30.93	A
87	1FB	South Dakota	1		\$ 23.60		D
88	1FB	South Dakota	1		\$ 26.60		D
89	1FB	South Dakota	2		\$ 26.00		D
90	1FB	South Dakota	2		\$ 29.00		D
91	1FB	South Dakota	3		\$ 28.80		D
92	1FB	South Dakota	3	9785	\$ 31.90		D
93	1FB	South Dakota	3	9783	\$ 31.90		D
94	1FB	South Dakota	3	9628	\$ 31.90		D
95	1FB	South Dakota	3		\$ 31.80		D
96	1FB	South Dakota	3	9785	\$ 34.90		D
97	1FB	South Dakota	3	9783	\$ 34.90		D
98	1FB	South Dakota	3	9628	\$ 34.90		D
99	1FB	South Dakota	4		\$ 32.95		D
100	1FB	South Dakota	4		\$ 35.95		D
101	AFK	Iowa	3		\$ 30.99	\$ 34.46	A
102	JZ3PD	Colorado			\$ 12.99		C
103	JZ3PD	Idaho			\$ 12.99		C
104	JZ3PD	Montana			\$ 12.99		C
105	JZ3PD	New Mexico			\$ 12.99		C
106	JZ3PD	Oregon			\$ 17.00		D
107	JZ3PD	South Dakota			\$ 12.99		C
108	JZ3PD	Washington			\$ 17.00		D
109	RSX	Colorado			\$ 27.75		C
110	RSX	Colorado			\$ 27.75		C
111	RSX	Utah			\$ 24.90		C

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Item #	USOC	State	Rate Group	NPA/ CO	Rate Per Rate Table	Rate Per Tariff or Contract	Note
112	RSX	Washington			\$ 24.90		C
113	Z4D	Colorado			\$ 1,150.00		C
114	Z4D	Idaho			\$ 1,150.00		C

Notes:

A - Different Rate in Tariff

B - No Specific Mention of "National Directory Assistance" in Tariff. Tariff does state "The Company furnishes Directory Assistance Service whereby customers may request assistance in determining telephone numbers within or outside this state."

C - Rate Not Found in Contract

D - Rate Not Found in Tariff

**Attachments A-7 and A-8
are in separate binders after Appendix C**

Appendix B

**JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
QWEST COMMUNICATIONS INTERNATIONAL, INC.**

**GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED**

**FINAL PROCEDURES
JUNE 1, 2006**

**JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
QWEST COMMUNICATIONS INTERNATIONAL, INC.

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED**

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**QWEST COMMUNICATIONS INTERNATIONAL, INC.
BIENNIAL ENGAGEMENT PROCESS**

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of section 271 of the Act and must receive approval by the Federal Communications Commission (FCC). A BOC that is required to operate a separate affiliate under section 272 must obtain and pay for a joint Federal/State audit every two years.¹

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-213. The Commission's Part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's Part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commission's rules. 47 C.F.R. § 53.209(b) lists the specified compliance requirements of the section 272(d) biennial audit. In addition to specifying the audit requirements, the Commission's rules at 47 C.F.R. § 53.209(d) provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from planning stage through completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements in 47 C.F.R. § 53.209(b)". Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) states that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"; 47 C.F.R. §§ 53.211(b) requires the Federal/State joint audit team to review the audit requirements and authorizes the Federal/State joint audit team to modify the audit program; 47 C.F.R. §§ 53.211(c) (authorizes the Federal/State joint audit team to approve the audit requirements and program; and 47 C.F.R. §§ 53.211(d) gives the Federal/State joint audit team the right to determine any modifications to the audit program and to be kept apprised of any revisions to the audit program or to the scope of

¹ 47 U.S.C. § 272(d)

the audit. In accordance with *Statements on Standards For Attestation Engagements 10*, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards."

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission's rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter."² For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the "specified parties" consist of the Federal/State joint audit team ("Oversight Team" or "Joint Oversight Team") and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, Qwest Communications International, Inc. ("QCII")). The Oversight Team will be comprised of members from the FCC and members of the state commissions who have jurisdiction over QCII in their respective states³ and who have chosen to participate in the Biennial Audit and have either signed a Protective Agreement or the State commission has promulgated a Protective Order.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after consultation with QCII, for directing the practitioner to take such action as the team finds necessary to achieve each audit objective. Consistent with section 53.209(d) of the Commission's rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of sections 53.209(b) as reflected in letters or orders issued by Bureau staff and served on QCII. If QCII disagrees with the Oversight Team's directions, the Oversight Team will issue a written decision describing the specific directions to which QCII objects. QCII may file a petition for reconsideration (PFR) of that decision with the Enforcement Bureau pursuant to section 1.106 of the Commission's rules. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team ten business days after such decision is issued if QCII has not filed a PFR. The specified parties further agree that if the Enforcement Bureau denies any part of QCII's PFR, the independent auditor shall immediately implement the directions of the Enforcement Bureau's decision.

QCII may also file an application for review (AFR) of the Enforcement

² Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.

³ Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

Bureau's decision pursuant to section 1.115 of the Commission's rules. The independent auditor shall nonetheless implement the Enforcement Bureau's decision even if QCII files an AFR of that decision. Should the Commission grant any part of QCII's AFR, the independent auditor shall modify its procedures accordingly. In the event that QCII's AFR has not been acted on by the date of the filing of the final biennial audit report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as matters subject to an application for review with the Commission that have not yet been acted upon.

The text below provides the requirements for the engagement as listed in section 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed upon procedures.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. section 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under section 272 of the Act:

- I. Shall operate independently from the Bell operating company;
- II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;
- III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;
- IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under section 272 of the Act:

- V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

- VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

- VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;
- VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;
- IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;
- X. Shall charge its separate affiliate under section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;
- XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001

CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review — Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on June 30, 1999

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order)

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998

WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*; Released March 17, 2004.

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscrimination Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321, Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329, AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318, Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56, Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement period shall cover the 24 months of operations beginning January 2, 2004 and ending January 1, 2006 for all fourteen Qwest states since all have obtained authority to provide in-region interLATA services prior to January 2, 2004. The engagement will also cover all assets of the section 272 affiliates added since the last biennial audit. The biennial audit will cover all services for which a separate affiliate is required under section 272(a)(2) and includes all BOCs within the region and ILECs providing or receiving services to or from the section 272 affiliates. The audit test period will be from January 2, 2004 through September 30, 2005, except where noted.

Sunset Provisions

8. Section 272(f)(1) of the Communications Act provides that section 272 (other than subsection (e)) shall cease to apply to the interLATA telecommunications services of a BOC three years after the date the BOC receives authorization to provide interLATA telecommunications services under section 271(d), unless the Commission extends such three-year period by rule or order. Thus, section 272(d), which concerns the biennial audit sunsets three years after section 271 authorization. The Commission has determined that such "sunset" shall apply on a state-by-state basis according to the date that each state receives section 271 authorization.⁴ Therefore, as each state within the Qwest region sunsets, that state may be excluded from further section 272 audits as of the date of sunset as recognized by the FCC. However, if a BOC in a given state has affiliate transactions with any section 272 affiliate, those transactions will continue to be part of the audit because of the continuation of the Commission's rules governing affiliate transactions in Part 32.

Following the above process, Colorado, Idaho, Iowa, Montana, Nebraska, North Dakota, Utah, Washington, and Wyoming would be eligible to sunset on December 23, 2005 and the balance of the Qwest states would sunset during the third Qwest biennial audit. The engagement period for the current biennial audit ends on January 1, 2006, and the audit test period ends on September 30, 2005. As such, all fourteen Qwest states are included in this AUP engagement. The Commission has ruled that a BOC will be deemed nondominant in the provision of in-region, interLATA, domestic, interstate service only insofar as that service is provided through an

⁴ WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; Memorandum Opinion and Order; Released December 23, 2002.

affiliate that complies with section 272 and the FCC's implementing rules.⁵ Therefore, operations in a sunset state will be included in future engagements unless Qwest gives notice that it has elected to stop providing in-region, interLATA, domestic, interstate service through an affiliate that complies with section 272 and the FCC's implementing rules in a particular state(s). Without such notice provided to the Federal/State joint audit team prior to the date the independent auditor begins its audit work, all states will be included in the engagement regardless of sunset status.

Sampling

9. Certain audit procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such audit procedures shall be determined after the initial survey and/or during the performance of the audit of the section 272 affiliate. Such determinations shall be made jointly by the practitioner and specified parties. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, method of selection. Where the specified parties and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with QCII, when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures. The sampling plan should be submitted with the detailed audit program.

10. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of or for the end of the audit test period, the practitioner will utilize September 30, 2005 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to ensure continued compliance with the section 272 requirements.

⁵ CC Docket No. 96-149, In the Matter of Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area; Second Report and Order; Released April 18, 1997. WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; Memorandum Opinion and Order; Released December 23, 2002.